



June 16, 2010

DAVID E. WILLIAMS
VICE PRESIDENT, ENGINEERING

DEAN J. GRANHOLM
VICE PRESIDENT, DELIVERY AND POST OFFICE OPERATIONS

SUBJECT: Audit Report – Delivery Vehicle Replacement Strategy
(Report Number DA-AR-10-005)

This report presents the results of our audit of the Delivery Vehicle Replacement Strategy (Project Number 10YG005DA000). We undertook this self-initiated review to determine if the Postal Service has a viable and effective vehicle replacement strategy — viable as it relates to financial operational practicality and effective as it relates to the financial risks associated with an aging delivery fleet. See [Appendix A](#) for additional information about this audit.

The Postal Service has approximately 189,000 delivery vehicles made up of minivans, sport utility vehicles (SUVs), flex fuel, and long-life vehicles (LLVs). The majority of the Postal Service's delivery fleet are nearing the end of their 24-year life expectancy. Because of limited capital resources, the Postal Service has delayed its planned purchase of delivery vehicles until fiscal year (FY) 2018. The Postal Service faces the same capital challenges after 2018, as forecasts show continuing shortfalls.

Conclusion

The Postal Service has successfully maintained its LLV delivery vehicle fleet in safe, working condition for over 20 years. They attribute this success to a robust preventive maintenance program, as well as a “fix as fails” strategy that we found to be operationally viable and generally cost effective. However, analysis of delivery vehicle costs shows that this strategy would not be cost-effective for fleet vehicles the Postal Service will have to replace soon. These vehicles consist of 19,257 LLVs, with an average annual maintenance cost in excess of \$5,600 for FYs 2008 and 2009. Incurring maintenance costs at this rate, the “fix as fails” strategy costs \$342 million¹ more than it would cost to purchase new vehicles.

¹ Fund Put to Better Use - Funds that could be used more efficiently by implementing recommended actions.

This opportunity exists because the strategy as implemented often circumvents the service life and maintenance reinvestment guidelines.² These guidelines require that before initiating any extensive vehicle repair, Vehicle Maintenance Facilities (VMFs) must assess maintenance reinvestment by providing complete documentation of expected maintenance costs, the condition of all major components, and a cost analysis justifying the decision to repair. This information is to be documented on Postal Service (PS) Forms 4587, “*Request to Repair, Replace, or Dispose of Postal Service-Owned Vehicles*”, and it is to be submitted for district management approval before the repair is made. We found that this control was circumvented and costly repairs were made because the assessments were not complete and lacked district management approval. In addition, the Handbook PO-701 does not require that cumulative maintenance reinvestments are monitored beyond district levels. Without this control, maintenance intensive vehicles are not apparent to area and headquarters managers. See [Appendix B](#) for our detailed analysis of this issue.

We recommend the vice president, Engineering:

1. Replace maintenance intensive vehicles beginning in fiscal year 2011.
2. Reemphasize to vehicle maintenance and district managers the reinvestment threshold, the importance of completing PS Forms 4587 to include cumulative costs, and the need to obtain required approvals as detailed in Handbook PO-701.
3. Monitor maintenance intensive delivery vehicles at the area level.

Management’s Comments

Management agreed with our recommendations and will develop a (replacement) plan to present to the Capital Investment Committee. They will also issue a *Vehicle Maintenance Bulletin* to reiterate policy that will include maintenance monitoring standards. They indicated they would complete all actions by December 2010. While management also agreed with the monetary impact presented, they contend that the following factors may affect our cash flow analysis:

- Increased maintenance costs in consecutive years are coincidental.
- Major repairs drive up annual costs, but are lower in subsequent years.
- Costs for accidents would occur even if vehicles had been replaced.

In addition, in reference to our presentation of the “fix as fails strategy” they indicated the maintenance guidelines do not establish an annual maintenance threshold as the recommended point for the disposal of vehicles. The maintenance threshold of \$3,500

² Handbook PO-701, *Fleet Management*

establishes a local trigger to assist in the decision to repair, replace or dispose an individual vehicle. Lastly, management clarified the report does not weigh the operational impacts driving the decision to maximize retaining right-hand drive delivery vehicles and that a replacement plan for 19,257 vehicles would require capital approval and a 2 to 3 year lead-time. We have included management comments, in their entirety, in [Appendix F](#).

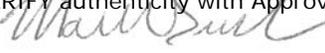
Evaluation of Management's Comments

The U.S. Postal Service Office of Inspector General (OIG) considers management's comments responsive to the recommendations and management's corrective actions should resolve the issues identified in the report. In reference to management's points regarding our cash flow analysis, we note our conclusion is similar to a FY 2005 contractor study provided by the Postal Service. That study concluded that Postal Service's proposed replacement program with no delays offered the lowest net present value as maintenance costs were growing with the age of the fleet. Our report substantiates that maintenance costs are continuing to grow and that there is a financial benefit to replace a segment of the fleet earlier than FY 2018. As such, we believe the maintenance cost factor used in our cash flow analysis cannot be attributed to mere coincidence. With respect to major repairs and accident costs, we acknowledge they influence maintenance averages, however, the Vehicle Maintenance and Accounting System does not separately track costs for major repairs and accidents to validate management's assertion.

We do not disagree with management assertions that the maintenance threshold is a guide to assist in the decision to repair, replace, or dispose of vehicles or that operational need may drive the decision to retain vehicles. Rather, the intent of our report is to point out the increased cost of the current strategy to replace maintenance intensive vehicles beginning in FY 2018.

The OIG considers all recommendations significant, and therefore requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. These recommendations should not be closed in the Postal Service's follow-up tracking system until the OIG provides written confirmation that the recommendations can be closed.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Miguel Castillo, director, Engineering and Facilities, or me at 703-248-2100.

E-Signed by Mark Duda 
VERIFY authenticity with ApproveIt


Mark W. Duda
Deputy Assistant Inspector General
for Support Operations

Attachment(s)

cc: Steven J. Forte
Edward L. Gamache
J. Otis Smith
Sally K. Haring

APPENDIX A: ADDITIONAL INFORMATION

BACKGROUND

The Postal Service has approximately 189,000 delivery vehicles made up of minivans, SUVs, flex fuel vehicles, and LLVs. The Postal Service deployed the majority of the delivery fleet (142,000 right-hand drive LLVs) between 1987 and 1994. These vehicles are nearing the end of their 24-year life expectancy and are between 16 and 23 years old. In FY 2008, maintenance costs totaled about \$515 million and in FY 2009 they increased 2 percent, to about \$524 million. Individual annual vehicle repair costs were as high as \$43,000.

In 2005, the Postal Service was poised to purchase new delivery vehicles. Since that time, the economic realities limited capital funding and they decided to delay vehicle purchases until FY 2018. At that point, the LLVs will be between 24 and 31 years old. According to projections, the Postal Service will face similar challenges after 2018 as their forecasts show that by 2020 they will still be facing significant capital shortfalls.

The Postal Service has internal controls in place that allow managers to monitor maintenance costs. Handbook PO-701 establishes the service life and maintenance reinvestment guidelines of the delivery vehicle fleet. It establishes a maintenance reinvestment threshold of 20 percent of the vehicle contract price for LLVs aged 13 to 24 years.³ The handbook also requires that if there is a need for extensive repairs, an assessment of the maintenance reinvestment needs to be performed, documented on PS Form 4587, and elevated to the motor vehicle manager and the district manager or his representative for approval. This includes any request for repair, replacement or disposal of a vehicle.

OBJECTIVE, SCOPE, AND METHODOLOGY

Our objective was to determine whether the Postal Service has a viable and effective vehicle replacement strategy. To accomplish our objective, we interviewed vehicle operations managers at both Postal Service Headquarters and selected field locations. We observed maintenance operations at vehicle maintenance facilities and obtained documentation in support of a sample of repaired vehicles.

We used data from the Vehicle Maintenance and Accounting System (VMAS) to identify maintenance costs for delivery vehicles. Readily accessible system data was limited to FYs 2008 and 2009. We assessed the reliability of VMAS data by interviewing Postal Service officials knowledgeable about the data. We determined that the data were sufficiently reliable for the purposes of this report.

³ See [Appendix E](#)

We conducted this performance audit from October 2009 through May 2010 in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. We discussed our observations and conclusions with management officials on March 25, 2010, and included their comments where appropriate.

PRIOR AUDIT COVERAGE

Report Title	Report Number	Final Report Date	Monetary Impact	Report Results
<i>Vehicle Maintenance Facilities Scheduled Maintenance - National Capping Report</i>	DR-AR-09-007	6/30/2009	\$40,505,382	The Postal Service's VMAS did not include all commercial repair costs necessary to ensure appropriate fleet decisions. During FY 2008, approximately 31 percent of repair and maintenance costs were not captured in the VMAS. Management agreed with the findings and the recommendations.
<i>Electrification of Delivery Vehicles</i>	DA-WP-09-001	8/28/2009	None	Although operationally feasible, additional funding options are likely to be needed to promote testing of electric vehicle technology within the Postal Service fleet. We made no recommendations to Postal Service management.

APPENDIX B: DETAILED ANALYSIS

Postal Service Efforts to Sustain its Delivery Fleet Are Viable and Generally Cost Effective

The Postal Service requires specialized, right-hand drive vehicles for the majority of its delivery fleet. However, there are no right-hand drive vehicles available commercially for lease or purchase that would meet the Postal Service's needs. The Postal Service estimates replacing the LLV fleet would cost approximately \$4.2 billion or \$30,000 per vehicle. Without the capital resources to purchase a new vehicle fleet, the Postal Service has delayed its planned purchase of delivery vehicles until FY 2018 and must weigh the operational impacts of a decision to maintain or maximize the retention of the current fleet. In the meantime, the Postal Service attributes a successful preventive maintenance program and its adoption of a "fix as fails" strategy as a short-term means of ensuring that its delivery vehicles remain operational. We generally agree with management's assertions for the following reasons:

- While the cost of maintenance is continuing to increase as vehicles age, the annual maintenance cost for the majority of the delivery fleet (74 percent) is below the reinvestment threshold of \$3,500.
- The Postal Service has contractors in place to supply parts as needed.
- Considering the Postal Service's economic condition, it is less costly in the short term to maintain the aging delivery fleet than to replace it.

However, as the fleet ages the "fix as fails" strategy is becoming less advantageous. In 2018, 88 percent of the delivery fleet will be at or beyond the projected end of service life with some LLVs being up to 31 years old. It is unclear how long or at what cost fleet support can be sustained. In the long-term, the Postal Service will be exposed to more financial and operational risks as the delivery fleet will be more costly to maintain. While the current strategy is generally effective for the majority of the delivery fleet, this strategy is not effective for those in need of significant levels of maintenance, as discussed in the next section.

A Segment of the Delivery Fleet Warrants Earlier Replacement

We reviewed VMAS data to stratify the vehicle fleet according to the levels of repair costs incurred each year. We identified a segment of delivery vehicles for which the average cost of maintenance exceeded the investment threshold of \$3,500 in two consecutive years. The average maintenance cost for this segment was over \$5,600 for each of these fiscal years. This segment consisted of 19,257 LLVs, or 10 percent of the delivery fleet. Maintenance costs for this segment were \$108 million in FY 2008 and \$109 million in FY 2009, consuming approximately 21 percent of the fleet maintenance

cost.⁴ If the Postal Service continues the “fix as fails” strategy through 2018 and maintenance costs continue to increase, it would be more cost-effective for the Postal Service to replace this segment before 2018. Our 10-year cash flow analysis shows the net present value (NPV) of replacing this segment beginning in 2011 is lower by \$342,127,370.⁵ See [Appendix C](#) for a detailed cash flow analysis.

The “Fix as Fails” Strategy Circumvents Maintenance Internal Controls

Handbook PO-701 establishes the service life and maintenance reinvestment guidelines of the delivery vehicle fleet.⁶ Management has established the maintenance threshold for reinvestment at approximately \$3,500 per vehicle. At this threshold, vehicle maintenance facility (VMF) managers must assess the maintenance reinvestment by completing a PS Form 4587, which specifies the decision to repair, replace or dispose of a vehicle. VMF and district managers must concur on any decision to exceed the guidelines.

To test the effectiveness of this control, we requested PS Forms 4587 for vehicles that received extensive repairs at VMFs in the North Jersey district. We selected the North Jersey district because of the high number of vehicles that exceeded \$10,000 in maintenance costs, and because logistically, the location would allow for a physical review of the repaired vehicle and supporting data. Of the 83 forms provided, we found that:

- None had complete cost analysis sections.
- District approvals were not obtained for 75 vehicles that exceeded reinvestment thresholds.

For example, a PS 4587 form was completed showing an estimated cost of \$5,000 to replace a junk body and chassis. For this estimated one-time repair cost, the analysis was not complete and there was no district approval, although the FY 2009 expenditure on this vehicle was over \$36,000.

As depicted in Figures 1 and 2, for FY 2009, 49,569 vehicles (or 26 percent of the delivery fleet nationwide) met or exceeded the maintenance reinvestment threshold of \$3,500 and required the completion of a reinvestment assessment. This reflects only a small portion of the fleet, however it accounts for about \$269 million (or 51 percent) of the total delivery fleet maintenance cost. Headquarters maintenance indicated that

⁴ Total maintenance cost for the delivery fleet in FY 2008 was \$514,846,613. The \$108 million represents 21 percent of total FY 2008 delivery fleet maintenance costs. For FY 2009, total maintenance costs were \$523,785,954 with \$109 million or 21 percent of total maintenance costs being consumed for this group of vehicles.

⁵ We incorporated interest expense as a separate cash flow line item. Postal Service considers interest expense as part of the cost of capital discount rate. Postal Service’s approach increases the net present value.

⁶ Handbook PO-701 states that for vehicles in years 13 – 24 of their service life, the threshold for maintenance reinvestment requiring completion of PS Form 4587 remains at 20 percent of the vehicle’s contract price.

vehicle costs above the reinvestment threshold do not provide sufficient assurance that the internal controls (PS Forms 4587) for vehicle repair are effective.

Figure 1

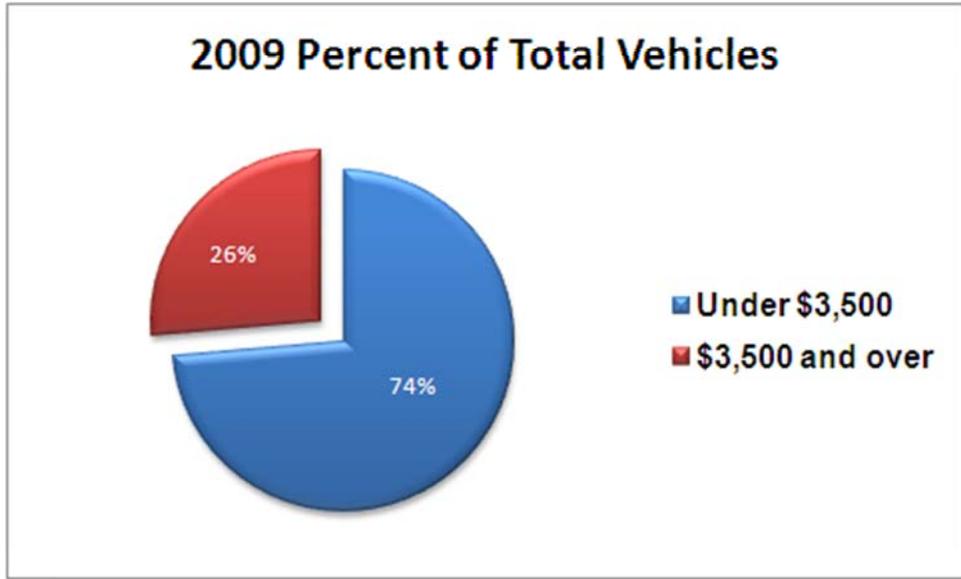
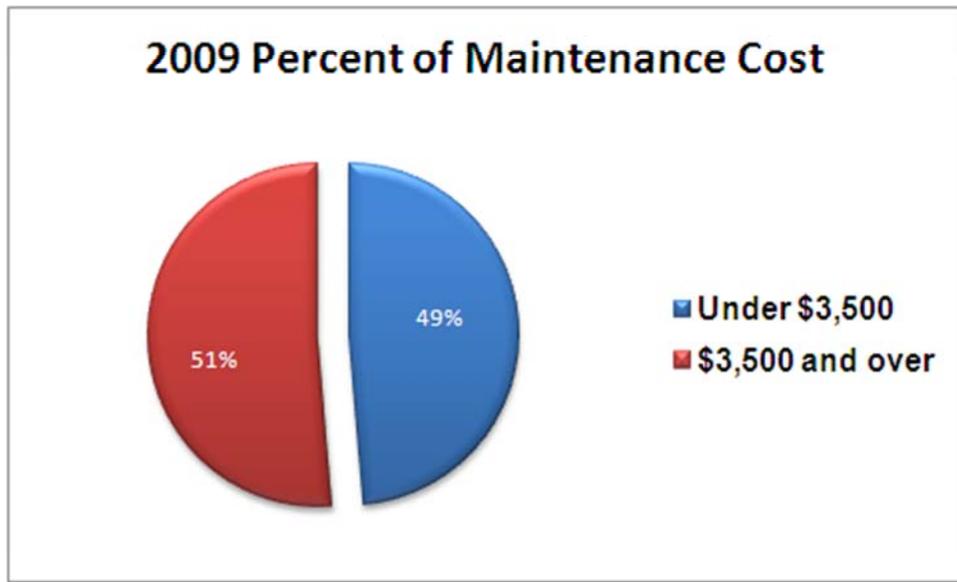


Figure 2



Maintenance managers indicated reinvestment criterion was applicable on a per repair basis rather than a cumulative yearly total. This interpretation of the guidelines allowed VMF managers to completely rebuild vehicles and spend unlimited amounts to repair a single vehicle by simply submitting individual requests for component repairs that were part of an overall rebuild. For example:

- A VMF spent \$43,000 to rebuild one vehicle in FY 2008 and another spent \$38,000 on repairs to a vehicle in FY 2009. These amounts are substantially more than the \$30,000 the Postal Service estimates a new specialized vehicle would cost.



Vehicles are being completely reassembled to include frame, engine, transmission, and body shell. Available data shows 613 vehicle frames were replaced in FY 2008 and 2,250 frames in FY 2009.

VMF managers stated that they typically rebuild vehicles when they replace a frame. We note that managers at VMFs have the authority to make repairs they deem necessary within their respective budgets. The maintenance policy requires only district or motor vehicle manager approval before any extensive vehicle repairs or disposals are initiated.

Fleet Replacement Strategies

The Postal Service has the largest civilian fleet in the world, with the majority of the vehicles used for delivery. The Postal Service is unique in its size and its need for specialized right-hand drive vehicles. In an effort to compare the Postal Service's replacement strategy to a standard for the industry, we benchmarked the General Services Administration (GSA) and Canada Post. Although Canada Post has some right-hand drive vehicles, they number approximately 2,200 out of a total fleet of approximately 7,000 vehicles.

The GSA usually manages fleet purchases for federal agencies and, as presented in Figure 3, their replacement policy indicates comparable light trucks are replaced at 7 years or 65,000 miles. Likewise, Figure 4 shows that Canada Post has an expected end of life of approximately 16 years or 160,000 kilometers (approximately 99,419 miles) for carrier vehicles. Both benchmarked organizations replace vehicles earlier than the service life strategy adopted by Postal Service. See [Appendix E](#) for Postal Service vehicle service life and maintenance reinvestment guidelines.

Figure 3

Vehicle Category	Type	GSA Replacement Criteria		
		Years	Miles	
Light Trucks < 12,500 Pounds	Non-Diesel	4 X 2	7	65,000
	Diesel	4 X 2	8	150,000

The GSA and Canada Post have shorter replacement criteria for their fleets than the Postal Service.

Figure 4

	Primary Use	Type	Number	Average Age	Replacement Criteria
	Letter Carrier	Fuel Efficient Light Vehicles	2	2.1	9 Yrs/160,000 kms (99,419 miles)
	Mail Service Carrier	Step Van	2,686	6.1	15 Yrs/250,000 kms (155,342 miles)
	Letter Carrier	Right Hand Drive Vehicle	2,204	14.2	16 Yrs/160,000 kms (99,419 miles)
	Letter Carrier	Light Vehicles	1,688	6	9 Yrs/160,000 kms (99,419 miles)

APPENDIX C: EXCERPTS: CASH FLOW ANALYSIS OF MAINTENANCE INTENSIVE SEGMENT (FUNDS PUT TO BETTER USE)

Cost of OIG Recommendation	2010	2011	2012	2017	2018	2019	2020
Investment Year	0	1	2	7	8	9	10
Replacement vehicles purchased		19,257	0	0	0	0	0
Cumulative size of replacement fleet		19,257	19,257	19,257	19,257	19,257	19,257
Replacement vehicle purchase cost		(577,710,000)	0	0	0	0	0
Cumulative capital investment		(577,710,000)	(577,710,000)	(577,710,000)	(577,710,000)	(577,710,000)	(577,710,000)
Total maintenance costs of replacement fleet		(6,476,573)	(15,615,264)	(42,559,840)	(47,472,836)	(52,818,425)	(57,816,071)
Fuel consumption cost of existing vehicles @ 12 mpg avg and 17.3 mi/day avg.		(24,102,981)	(24,753,762)	(28,280,913)	(29,044,498)	(29,828,699)	(30,634,074)
Disposal value of replaced vehicles		9,628,500	0	0	0	0	0
Interest cost of borrowing for capital investment		(20,219,850)	(20,219,850)	(20,219,850)	(20,219,850)	(20,219,850)	(20,219,850)
Total cost		(618,880,904)	(60,588,875)	(91,060,603)	(96,737,184)	(102,866,974)	(108,669,995)
Discounted @ 3.5% per year			(\$597,952,565)	(\$56,560,363)	(\$71,572,811)	(\$73,463,335)	(\$75,476,685)
NPV			(\$1,211,435,017)				

Net Present Value (NPV) difference of OIG recommendation is \$342,127,370 less than Postal Service plan.

Cost of Postal Service Plan	2010	2011	2012	2017	2018	2019	2020
Investment Year	0	1.00	2.00	7.00	8.00	9.00	10.00
Number of existing LLVs		19257.00	19257.00	19257.00	0.00	0.00	0.00
Total maintenance costs of existing LLV fleet		(110,786,941)	(112,773,271)	(123,252,067)	0	0	0
Fuel consumption cost of existing vehicles @ 10 mpg avg and 17.3 mi/day avg.		(28,923,577)	(29,704,514)	(33,937,095)	0	0	0
Replacement vehicles purchased		0	0	0	19,257	0	0
Cumulative size of replacement fleet		0	0	0	19,257	19,257	19,257
Replacement vehicle purchase cost		0	0	0	(663,607,197)	0	0
Cumulative capital investment		0	0	0	(663,607,197)	(663,607,197)	(663,607,197)
Total maintenance costs of replacement fleet		0	0	0	(7,439,547)	(17,937,029)	(23,917,332)
Fuel consumption cost of replacement vehicles @ 12 mpg avg and 17.3 mi/day avg.		0	0	0	(29,044,498)	(29,828,699)	(30,634,074)
Disposal value of replaced vehicles		0	0	0	9,628,500	0	0
Interest cost of borrowing for capital investment		0	0	0	(23,226,252)	(23,226,252)	(23,226,252)
Total cost		(139,710,518)	(142,477,785)	(157,189,163)	(713,688,993)	(70,991,980)	(77,777,658)
Discounted @ 3.5% per year			(\$134,986,008)	(\$133,004,537)	(\$123,549,261)	(\$541,983,669)	(\$52,089,015)
NPV			(\$1,553,562,387)				

APPENDIX D: CASH FLOW ASSUMPTIONS

We used the following assumptions in calculating the monetary impact:

Assumptions	
2010 cost of fuel per gallon	\$2.79
Energy-related cost items annual escalation factor	2.7%
All other costs annual escalation factor	2.0%
Average number of operating days per year	303
Average miles per gallon fuel for existing vehicle	10
Average miles per gallon fuel for replacement vehicle	12
Average miles driven per day	17.3
Assumed annual increase in maintenance cost, existing vehicles	1.79%
Postal Service cost of borrowing/discount rate	3.5%
Cost of replacement vehicle, 2011	\$30,000
Estimated disposal value of existing LLVs per vehicle, 2011	\$500
Annual average cost for maintenance intensive segment per vehicle	\$5,652

APPENDIX E: VEHICLE SERVICE LIFE TABLE

Exhibit 221.211 Service Life and Maintenance Reinvestment Guidelines															
Vehicle Type	Life (Years)	Mileage (000)		Maintenance Reinvestment Threshold as Percentage of Vehicle Contract Price According to Age in Years											
		Total	Annual	1	2	3	4	5	6	7	8	9	10	11	12
Light Delivery															
LLV, FFV*	24	120	5	50	46	43	40	37	34	31	28	26	24	22	20
1/2-ton**	8	56	7	50	45	40	35	30	25	20	15	10	5	0	0
Intermediate															
1-ton	12	120	10	50	47	44	40	37	34	30	27	24	20	17	15
1-ton gasoline	12	120	10	50	45	40	35	30	25	20	15	10	5	5	5
2-ton	12	120	10	50	47	44	40	37	34	30	27	24	20	17	15
Cargo Van															
5-, 7-, 9-, & 11-ton	8	240	30	50	47	44	40	37	33	29	24	19	12	9	5
Tractor															
Single-Axle	8	360	45	50	45	40	35	30	25	20	15	10	5	0	0
Tandem-Axle	8	360	45	50	45	40	35	30	25	20	15	10	5	0	0
Spotter	8	NA	NA	50	45	40	35	30	25	20	15	10	5	0	0
Trailer	12	NA	NA	50	47	44	40	37	33	29	24	19	12	9	5
Service Trucks															
VMF	8	72	9	50	45	40	35	30	25	20	15	10	5	0	0
Plant Maint.	8	72	9	50	45	40	35	30	25	20	15	10	5	0	0
Administrative	8	72	9	50	40	30	20	5	0	0	0	0	0	0	0
<p>* Note: Original LLV service life expectancy was based on an aluminum body and a planned mid-life refurbishment program. Life expectancy for aluminum-bodied right-hand drive vehicles (LLVs and FFVs) is now 24 years, with ongoing maintenance of individual vehicles (including engine and transmission replacement) on an as-needed basis. For years 13–24, the threshold for maintenance reinvestment requiring completion of PS Form 4587 remains at 20 percent.</p> <p>** Includes Ford Windstar, Ford Aerostar, and Chrysler van-type vehicles acquired for delivery operations.</p>															

APPENDIX F: MANAGEMENT'S COMMENTS

DAVID E. WILLIAMS
Vice President
Engineering



June 8, 2010

LUCINE M. WILLIS
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Draft Audit Report – Delivery Vehicle Replacement Strategy
(Report Number DA-AR-10-DRAFT)

Thank you for the opportunity to review and comment on the subject draft audit report. We have reviewed the report and agree with the findings and recommendations with the exceptions discussed below.

We are currently analyzing the savings opportunity identified in the report. We tentatively agree with the \$342 million identified as funds put to better use pending the outcome of this analysis. We will notify the Office of Inspector General by October 2010, if there are any material differences in the savings opportunity based on our analysis.

To assist in clarifying information provided in the report, the following is provided:

Savings Cash Flow Analysis

- 1) The savings is in a large part based on the assumption that the same 19,257 vehicles have a larger than average maintenance cost of \$5,600 per year, year after year, and that this maintenance cost will continue to escalate at the rate of 1.79 percent per year for the identified vehicles. Vehicle Programs contends that this increased maintenance cost is not based on specific vehicles' age or matured condition, but coincidental circumstances in concurrent years requiring higher than average costs for certain vehicles. While we were unable to immediately substantiate the elements that make up these specific costs, our information identifies the average Long Life Vehicle (LLV) cost is in excess of \$3,100 per year. Major repairs frequently drive up an annual cost for a vehicle in a single year while often reducing costs for that vehicle in subsequent years. Our approach to this analysis would be to identify and replace a segment of vehicles each year requiring a major reinvestment, thereby avoiding the high repair costs. Since a different group of vehicles will be identified each year, a multi-year replacement approach is needed.
- 2) Accident damage should be removed from the annual maintenance repair costs when identifying which vehicles should be classified as "maintenance intensive" vehicles. The age of the vehicle has no impact on accident damage and would occur even if the vehicle had been replaced in that calendar year.

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Prior Audit Coverage

- 1) We believe a quote used from report number DR-A R-09-007 is misrepresented in this report by stating "approximately 31 percent of repair and maintenance costs were not captured in the VMAS". This report was based only on commercial repair costs not captured in Vehicle Management Accounting System (VMAS) and not the entire maintenance cost of the vehicle.

Preventative Maintenance ("Fix as Fails") Strategy Circumvents Maintenance Internal Controls

- 1) Handbook PO-701 does not set a maximum maintenance reinvestment repair limit, but establishes a threshold to require higher level management approval prior to performing significant vehicle repairs based on vehicle age and acquisition cost. The maintenance threshold for reinvestment of LLVs set at \$3,500 establishes the "local" vehicle maintenance facility's trigger to complete a process in order to assist in the decision to repair, replace, or dispose of an individual vehicle. The guidelines requires management to complete a PS Form 4587 and to: 1) determine the need to retain the vehicle, 2) estimate costs to return the vehicle into serviceable condition, 3) research the availability of a surplus replacement vehicle, and if no current surplus vehicle is available within the service, to consider a lease replacement with the requisite costs. The guidelines do not establish an annual maintenance expenditure threshold of \$3,500 as the recommended point for disposal of vehicles.
- 2) When the process is followed correctly, the local Vehicle Maintenance Facility (VMF) completes the form and submits their recommendation to the Area Vehicle Maintenance Program Analysis (VMPA). The VMPA then reviews the information and either concurs or refutes the local findings based on Area's needs, prior to approving the recommended action.

Purchase of Replacement Vehicles

- 1) The subject audit report implies the Postal Service can readily procure 19,257 comparable RHD replacement vehicles at a cost of \$30,000 per unit and that the replacements can occur in 2011. The \$30,000 per unit estimate was developed by the USPS based on a production run commitment of 150,000 "purpose-built" vehicles with a long term supplier, and not a single unit or limited purchase quantity.
- 2) A purchase of 19,257 vehicles would require identification of the requirement in the approved capital plan as well as Capital Investment Committee and Postmaster General approval. This effort would likely require a two to three year development and acquisition cycle, prior to the vehicle replacement unit being available for delivery to the Postal Service.
- 3) This report did not weigh operational impacts driving the decision of maximize the retention of Right Hand Drive (RHD) vehicles in the USPS fleet. As there is no available RHD replacement vehicle commercially available for lease or purchase, and based on the fact the Postal Service has binding commitments to place 15,000 RHD vehicles on Rural Routes by 2013, RHD vehicles must be retained to meet our operational commitments. The Postal Service must also consider both, current and future needs of RHD vehicles in the decision to repair a vehicle, and in some cases the operational impacts can outweigh the estimated cost to repair the vehicle.

The following are our responses to the recommendations contained in the report.

Recommendation 1:

Replace maintenance intensive vehicles beginning in fiscal year 2011.

Response:

We agree, in part, with this recommendation. While we agree that replacing vehicles with high maintenance costs can lead to lower overall cost, we are unable to commit to replacing vehicles in fiscal year 2011. Notwithstanding the long lead time required to procure purpose built delivery vehicles, this recommendation requires capital funding be identified within the Integrated Financial Plan and funding approvals by the Capital Investment Committee and the Postmaster General. We agree to develop a plan to addressing the higher cost vehicles. The plan will be developed by December 2010 for presentation to the Capital Investment Committee for review and guidance.

Recommendation 2:

Reemphasize to vehicle maintenance and district managers the reinvestment threshold, the importance of completing PS Form 4587 to include cumulative costs, and the need to obtain required approvals as detailed in Handbook PO-701

Response:

We agree with this recommendation. Fleet Management Handbook, PO-701 provides guidance to field management regarding this issue. Vehicle Programs will issue a Vehicle Maintenance Bulletin (VMB) reiterating the policy and highlight the instructions for the process to be followed including required approvals. The VMB will be released by July 2010. Also, as appropriate, the Postal Service will reassess the reinvestment thresholds based on the outcome of the actions taken to address recommendation 1.

Recommendation 3:

Monitor maintenance intensive delivery vehicles at the area level.

Response:

We agree with this recommendation. The existing policy already addresses this issue and the response to recommendation 2 will reinforce this requirement. This will be addressed in the VMB to be released in response to recommendation 2.

We consider information pertaining vehicle pricing, cash flow analysis and related assumptions to be sensitive in nature and may contain propriety or other business information that may be exempt from disclosure under 39 USC 410(c)(2) of the Freedom of Information Act (FOIA). This information should be redacted in its entirety from the final report in response to any FOIA requests. If you have questions, J Otis Smith, manager of Vehicle Programs, will monitor implementation of report recommendations and can be reached at (703) 280-7851.



David E. Williams

- cc: Mr. Donahoe
- Mr. Forte
- Mr. Gamache
- Mr. Smith
- Ms. Haring